Report of the Cabinet meeting held on Monday 30 October 2017

Present: Councillors Nickie Aiken (Chairman), Heather Acton, Daniel Astaire, Danny Chalkley, David Harvey, Richard Holloway, Tim Mitchell and Rachael Robathan

Also Present: Councillors Richard Beddoe and Brian Connell

1. 2018-2019 Budget Proposals

(a) We have considered the detailed report from the City Treasurer which sets out proposals for the 2018-2019 Budget. The report we considered which is attached as Appendix A, sets out the financial savings proposals of £37.695 million as currently estimated to be required in 2018-2019. We have carefully considered these proposals earlier than in previous years in order to allow additional time for those impacted to be able to plan any necessary changes arising and for the full year effect of savings to be realised. The budget reductions are detailed in Schedule 4 of the report we considered and are part of an ongoing programme. The financial challenges faced since 2010 remain unchanged and are as fully detailed in the City Treasurer's report.

(b) As previously reported the Council accepted the Government's offer of a four year funding allocation which allowed for some level of certainty but in the context of continuing financial pressure. Some of the most significant of these in 2018-2019 are: Ongoing Austerity; the Business Rates System; Brexit as well as other risks. The March Government Budget was the last Spring budget and the change to an Autumn budget could assist in future council budget preparation. The impact on the Council fully is also detailed in the City Treasurer's report.

(c) Work has reached a detailed stage moving the relevant services from a tri-borough to a bi-borough programme. Part of this will see the establishment of joined-up commissioning across Adult Social Care and will be the subject of a report to our next meeting. The pressures relating to Adult Social Care are detailed in the report which also explains that for financial modelling purposes it has been assumed that the Council will apply the precept for Adult Social Care of 2% on Council Tax bills. We have noted that this will not be formally considered or approved until March 2018. We will consider a detailed report at our February meeting.

(d) The details of the Sustainability Transformation Programme, the Better Care Fund, the impact of Brexit, Business Rates, the Pension Fund, the West End Partnership and Developing Mayoral Policy are also set out in the report. We noted that a number of current and future consultations on a range of planning related topics are being brought forward by the Mayor of London which the Council will be responding to. These are set out in paragraph 4.53 of the report we considered and should also include reference to the Healthier Lifestyle policy consultation.

(e) We noted that at period 6 of the projected year end underspend was £2.982m and that this would be carefully monitored. The Leader advised that a number of “My Westminster” community projects could be given one off funding using this underspend and we therefore agreed that it should be earmarked for this use. We asked that a report be submitted to the Cabinet Member for Finance, Property and Corporate Services setting out the proposed governance arrangements.

(f) We have endorsed the financial strategy and recommend this to Council. Details of the revenue funding gap which requires gross savings of £37.695m are shown in Schedule 4 of the report we considered as were the reasons for the accelerated process to that undertaken in previous years. In considering the savings and the whole budget we have had regard to the Equality Impact Assessments, published with the City Treasurer’s report. We have also considered the views of the Budget Security Task Group and in doing so heard from its Chairman, Councillor Brian Connell. In making our budget recommendations to the Council we confirm that every area of operation has been examined to identify opportunities to reduce costs and generate additional income. In submitting the budget at this stage we have noted that a further report will be submitted to our meeting on 19 February 2018. This will include any updates as a result of the outstanding consultations and the precepts which will be received from February. The formal Council Tax resolution will also be submitted by us to full Council on 7 March 2018.

We recommend:

(i) That the Budget Proposals including the financial strategy set out in the report of the City Treasurer attached as Appendix A be approved, where external consultation has been completed.

(ii) That a further report be submitted to Cabinet in February 2018 and then to Council on 7 March 2018 to reflect the outcome of external consultation and Equality Impact Assessments not already considered and adjusted to reflect the updated budget position.

(iii) That the Council have regard to the views of the Budget and Performance Task Group set out in Appendix A.

(iv) That the draft estimated cash limited budgets for each service with overall net expenditure for 2018-2019 of £168.163m (as set out in Schedules 1 to 6) be noted. These figures are draft and based on 2017-2018 Period 6 budgets which may change before final budget setting is completed in March 2018.

(v) That, after considering the period 6 monitor and noting the projected £2.982m underspend, officers are asked to earmark these monies for a number of “My Westminster” initiatives and projects. That a report be submitted to the Cabinet Member for Finance, Property and Corporate Services, setting out the proposed governance arrangements for any such proposals.

(vi) That the Equality Impact Assessments included in Annex B of the report (Appendix A) be received and noted to inform the consideration and approval of the budget proposals.

(vii) That the Cabinet receives a further report in February 2018 which will finalise the budget for 2018-2019.

2. Capital Strategy Report 2018-2019 to 2022-2023, Forecast Position for 2017-2018 and Future Years Forecasts Summarised up to 2031-2032

(a) We have considered a report which outlines the capital strategy and expenditure and income budgets from 2018-2019 going forward. This is detailed in the report of the City Treasurer which is attached as Appendix B. Last year the Council embarked on the early stages of an ambitious capital programme directly linked to the aims and objectives of City for All and PACE. This report effectively updates that position. As with the Budget proposals this report has been brought forward for review. This will facilitate early planning of the programme before its submission to Council on 7 March 2018.

(b) The strategic sections of the report provide details on the policy context within which the programme is constructed and the aims and objectives it is designed to deliver. Also set out is the governance processes which establish the principles to be followed in agreeing how to invest capital resources and achieve value for money for the Council. Governance processes have continued to evolve over the year to date particularly with the development of the programme management functions and initiatives which are detailed further in Sections 5 and 6 of the report.

(c) The Council has a significant capital programme across both the General Fund and the Housing Revenue Account (HRA). This supports the strategic aims of the Council, as defined in its *City for All* programme, with its vision for a city of choice, aspiration and heritage. Capital proposals are considered within the Council's overall medium to long term priorities and the preparation of the capital programme is an integral part of the financial planning process. This includes taking full account of the revenue implications of the projects in the revenue budget setting process.

(d) The report includes a summary overview of proposed budgets which is followed by a more detailed breakdown of the programme by service. This includes an analysis of the changes in the programme from that approved for 2017/18, risks and how these will be mitigated, and the financial implications of the programme.

(e) The Housing Revenue Account (HRA) capital programme has a value of £794m over the next five years (2018/19 to 2022/23). It is important to note that HRA resources can only be applied for HRA purposes, and that HRA capital receipts are restricted to fund affordable housing, regeneration or debt redemption only.

(f) The projects that have been re-profiled were committed or commenced in 2017/18 and thus had an approved budget. They have been re-profiled for a variety of reasons including delays in the tender process, completion of acquisition/land assembly stages, obtaining planning permission and starting on-site construction.

(g) The proposed budget is fully funded after Council borrowing, but this does depend on the schemes being delivered on time and within budget. The impact of potential changes in cost and timescale are fully explored in the financial implications of the report. Any increases in expenditure or reductions in income will need to be managed by the service areas and either contained within the project or funded from elsewhere within the relevant service.

We recommend:

That Council:

(i) Approve the Capital Strategy as set out in this report.

(ii) Approve the capital expenditure for the General Fund as set out in Appendix B for 2018-2019 to 2022-2023 and future years to 2031-2032.

(iii) Approve the capital expenditure forecasts for the General Fund as set out in Appendix B of the report.

(iv) Note the expenditure forecast for 2017-2018 for the HRA as set out in the report attached as Appendix B.

(v) Note the capital expenditure for the HRA for 2018-2019 to 2022-2023 as in accordance with the 30 year HRA Business Plan and as included in the report attached as Appendix B.

(vi) Note the financial implications of the HRA Capital Programme including the references to the debt cap and the level of reserves as detailed in paragraph 12.33 of the report attached as Appendix B.

(vii) Approve that in the event that any additional expenditure is required by a capital scheme over and above this approved programme the revenue consequences of this will be financed by revenue savings or income generation from relevant service areas.

(viii) Approve that all development and investment projects follow the previously approved business case governance process as set out in paragraphs 6.7 to 6.15 of the report attached as Appendix B.

(ix) Approve that no financing resources unless stipulated in regulations or necessary agreements are ring fenced.

(x) Approve that contingency in respect of major projects is held corporately with bids for access to those contingencies to be reviewed by the Capital Review Group (CRG) and thereafter approved by the relevant Cabinet Member and City Treasurer, in the event they are required to fund capital project costs, as detailed in paragraphs 10.43 to 10.44 of the report attached as Appendix B. These total £651.505m from 2017-2018 to 2031-2032 but include a sum of £450m which is an allowance for general capital expenditure (eg highways improvements) in future years beyond 2021-2022.

(xi) Note that as approved last year the Council plans to use capital receipts in 2017-2018 to fund the revenue costs of three eligible proposals – the refurbishment of Westminster City Hall (£9m), the Digital Transformation Programme (£2.8m) and a contribution to the pension fund deficit (£10m) under the DCLG Guidance on the Flexible Use of Capital Receipts if considered beneficial to the Council's finances by the City Treasurer at year end. Further use of flexible capital receipts to fund the above are also included in the capital programme for these schemes in 2018-2019 (the last year to which the Flexible Capital Receipts scheme is available).

(xii) Approve that the financing of the capital programme as set out in paragraphs 12.1 to 12.21 of the report attached as Appendix B.

(xiii) Approve that financing of the capital programme be delegated to the City Treasurer at the year end to provide sufficient flexibility to allow for the most effective use of Council resources.

3. Treasury Management Strategy Statement for 2018-2019 to 2022-2023

(a) The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code for Capital Finance in Local Authorities and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within the report we considered which is attached as Appendix C.

(b) The Act also requires the Council to set out a statement of its treasury management strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. The Treasury Management Strategy Statement and Annual Investment Strategy must both have regard to guidance issued by CLG and must be agreed by the full Council.

(c) The report we considered (Appendix C) included the Council's proposed Treasury Management Strategy Statement (TMSS) for the period 2018/19 to 2022/23, and Annual Investment Strategy (AIS) for the year ended 31 March 2019, together with supporting information. These are submitted for the Council's approval.

We recommend:

That the Council approve:

(i) The Treasury Management Strategy Statement set out in sections 5 to 7 of the report Appendix C.

(ii) The Prudential Indicators set out in section 8 of Appendix C.

(iii) The overall borrowing strategy and borrowing limits for 2018-2019 to 2022-2023 as detailed in section 6 of the report (Appendix C).

(iv) Investment strategy and approved investments set out in Appendix 1 of Appendix C.

(v) The Minimum Revenue Provision Policy set out in Appendix 2 of Appendix C.

4. Treasury Management Strategy Mid-Year Review 2017-2018

(a) We have considered a report which updates us on the delivery of the 2017-2018 Treasury Management Strategy which had been approved by the Council on 1 March 2017. The report is attached as Appendix D.

(b) At this mid-year stage we have agreed:

- The Annual Treasury Strategy 2017-2018 Mid-Year Review, noting the cases of non-compliance and the action taken to rectify this.
- To increase the maximum loan period for the LGA loan from 12 to 15 years.
- To reduce the credit rating limit for investments in Supra-national banks and European agencies from AA+/Aa1/AA+ to AA/Aa/AA.
- To increase the aggregate limit for lending to local authorities from £100m to £200m.
- To amend the limit on lending to individual local authorities from £50m to £100m subject to lending criteria.
- To increase the limit for collateralised deposits from £60m to £100m.
- To reduce the minimum working capital balance from £150m to £nil to make better use of the Council's cash resources.

We recommend:

That the report (Appendix D) be noted and the changes set out in 4 (b) above approved by Cabinet (30.10.17) be endorsed.

5. Housing Investment Strategy and Housing Revenue Account Business Plan (2018-2019)

(a) We have considered the Housing Investment Strategy and 30 year Housing Revenue Account Business Plan which is ambitious and aims at delivering a range of lasting benefits for the City, its residents and the Council. They will allow the Council to realise much of its “City for All” ambitions. Since last year the 30 year plan for capital investment in the Council’s existing stock and regeneration schemes has increased from approximately £1.64bn over 30 years to about £1.86bn as outlined in the report we considered.

(b) The full report we considered is attached as Appendix E which has been updated by officers to include some minor drafting changes. The Council is asked to note the indicative HRA Capital Programme budgets and the Affordable Housing Fund to new supply programmes.

(c) We noted that forthcoming changes to the City Plan will require increased provision of affordable housing on-site which will see a reduction of S106 monies but nevertheless an increase overall of affordable housing.

(d) We also noted that line 9 of the table 2 in paragraph 7.3, whilst correct, could be misleading. It was confirmed that this £25.5m would be fully spent in the five years of the programme. The report attached as Appendix E reflects this.

We recommend: That the report we considered (Appendix E) be noted.

6. Integrated Investment Framework

(a) We have received a report which advised us that the Council does not presently have a comprehensive strategic framework for bringing together and managing all of its investments.

(b) The Council holds £1.3bn of short term cash based investments, managed under the Treasury Management Strategy, which passes through Scrutiny, Cabinet and Full Council on an annual basis. The Council also owns a significant number of investment properties currently valued at £455m which are considered as part of the Capital Programme, and holds longer term investments, mostly Government Bonds and equity shareholdings. In addition, the Council is responsible for managing the Pension Fund which has net assets of £1.3bn and operates under the Investment Strategy set by the Pension Fund Committee.

(c) In summary, the Council holds £1.3bn of investments for less than one year in high grade but very liquid investments generating a forecast return of 0.55% and £0.4bn in much longer term illiquid property investments generating around 4.2%. Compared to the current inflation rate as measured by CPI of 2.7% (as at August 2017) treasury investments are depreciating in value. The £1.3bn is 88% concentrated in the banking sector and the property portfolio is concentrated within the borough. There is currently therefore limited diversification in the current investment portfolio.

(d) The report we considered, which is attached as Appendix F sets out:

- The Council's strategic objectives in respect of risk management and its attitude towards investment risk;
- Current levels of investment activity;
- Proposals for an Integrated Investment Framework for the Council going forward which seek to diversify the risk and thus future-proof the Council against possible future economic downturns;
- Actions to be taken in connection with implementing this framework, if agreed.

We therefore recommend:

That the Council:

(i) Approve and implement the Integrated Investment Framework set out in the report as attached Appendix F (to be reviewed on an annual basis).

(ii) Approve that the target for the overall return on Council investments should aspire to match inflation.

(iii) Approve that the benefits of investing in the Pension Fund should be used as a benchmark when evaluating other investments.

(iv) Adopt the asset allocation percentages set out in the Framework and work towards achieving this.

(v) Approve that the overarching objective of this Framework is to achieve an overall return on Council investments aspiring to match inflation, or to reduce costs and liabilities at an equivalent rate whilst maintaining adequate cash balances for operational purposes and not exposing the capital value of investments to unnecessary risk.

7. 2016-2017 Annual Accounts and Outturn

(a) We have noted the Council's accounts for 2016-2017 which were formally approved by the Audit and Performance Committee on 17 July 2017.

(b) The General Fund revenue position saw a net outturn of £17.201m underspend against approved budget. This compared to a Period 10 (January 2017) forecast underspend of £15.273m. The most significant change between Period 10 and outturn being the impact of the reduction in debtors – arising as a result of work undertaken throughout the year to promote the proactive monitoring and recovery of outstanding debts.

(c) As set out in the 2017/18 Budget Setting and Council Tax Report (approved by Full Council in March 2017), £10.000m of the overall General Fund net underspend was earmarked as a contribution towards the Pension Fund deficit recovery. Approval for such a lump sum contribution was contingent on the finalisation of the outturn position being broadly as forecast – this being the case.

(d) Net of the lump sum contribution to the pension fund, the remaining revenue underspend for the General Fund was thus £7.201m and represented 0.8% of the approved gross 2016/17 budget. This amount was added to the Council's general reserves – rising from £41.575m to £48.777m, again as broadly anticipated and approved in the 2017/18 Budget Setting and Council Tax Report.

(e) The Housing Revenue Account (HRA) outturn position showed a net surplus of £9.980m and compared to a budgeted surplus of £7.340m – a variance of £2.640m (2.6% of the approved gross expenditure). This surplus increased HRA general reserves from £31.606m to £41.586m.

(f) The net general fund capital outturn variance was £23.513m. It should be noted that the gross capital programme at the start of the year was £351.288m which was re-profiled to £151.193m.

(g) The HRA capital programme gross expenditure was £57.559m compared to an approved budget of £64.907m – a gross underspend of £7.348m (11.3%). On a net basis after income budgets of £28.652m and income outturn of £29.043m are taken into account the net variance was £7.739m before borrowing and capital receipts were applied.

We recommend: That the 2016-2017 Accounts as set out in the report attached as Appendix G be noted.

Nickie Aiken, Leader of the Council

Local Government Act 1972
Background Papers: Reports and Minutes: Cabinet: 30 October 2017